

## National Economy

Following considerable speculation, the outcome of the September Federal Reserve policy meeting was that the Federal Open Market Committee (FOMC) members adjourned without public comment, leaving short-term interest rates unchanged. Apparently, for the time being, Fed policy makers are satisfied that the stronger-than-expected U.S. economic growth since the second quarter does not yet pose a significant risk of inflation.

One of the most frequently cited arguments against an interest rate hike by the Fed in its September FOMC meeting was that despite strong economic growth and an extended period of low and declining unemployment, general price pressure remains low at both the wholesale and consumer levels. Moreover, some recently-released economic statistics paint a mixed picture of the strength of the U.S. economy. A few indicators in fact turned

negative, pointing to a national economy that may already have lost some of its momentum.

Among the latter, the Department of Commerce reported that **durable goods orders** fell a sharp 3.1% in August, the biggest monthly drop since April 1995. In a separate report, the Commerce Department said August **factory orders** also showed a significant decline, dropping by 1.9%, the biggest retreat in more than three years. According to the U.S. Department of Labor's latest job report, **payroll employment** dropped by an unexpected 40,000 jobs in September, while the U.S. seasonally-adjusted **unemployment rate** ticked up 0.1%, to 5.2% in September. The September drop in wage and salary employment was the first monthly decline since January, and represents a sharp reversal from a monthly average gain of almost 300,000 jobs recorded between February and August.

## The Region: Employment and Economic Trends

The preliminary Employment Development Department (EDD) statistics for August show that **total wage and salary employment** in SCAG's six counties/MSAs combined was 6,117,500, up 139,800 jobs, or 2.3 percent, from year-earlier (Figures 1 and 2, Tables 1 and 3). Regionwide, the sectors showing the most robust year-over-year employment growth include: *agriculture* (up 4,500 jobs, or 7.6%), *construction* (+14,600 jobs, or 6.5%), *apparel and textiles* (+5,100 jobs, or 3.8%), *wholesale trade* (+16,100 jobs, or 3.6%), and *services* (+75,700 jobs, or 4.3%). Within the service sector, the *business services* component, *amusement and recreation*, *engineering and management* and *motion pictures* were especially strong (Figure 4 and Table 5).

Moreover, both *durable goods manufacturing* and the *manufacturing sector* as a whole have registered modest job growth for the third month in a row, indicating that the overall manufacturing job market has stabilized. We should also point out that while employment in the *finance, insurance and real estate (F.I.R.E.)* sector is still fractionally below its year-ago level, the job losses are concentrated in banking and insurance. Employment in the *real estate* sector has actually started to grow moderately on a year-over-year basis. For example, in Los Angeles County, where job figures are available for detailed sub-components within the

F.I.R.E. sector, year-over-year employment changes in real estate have been positive since October 1995, registering annual average job growth of almost 1.5 percent for the past 11 months.

The region's **weighted average unemployment rate** (Figure 3 and Table 4) improved considerably between July and August, dropping to 7.6 percent from 8.3 percent in July. More importantly, the regional jobless rate also showed a significant decline from its year-earlier level of 8.1 percent. Decreases in unemployment rates on a year-over-year basis were posted across the board except in *Imperial County*, where August's unemployment rate was fractionally higher than in August 1995. Both the national and California jobless rates (seasonally *unadjusted*) also declined between July and August—from 5.6% to 5.1% for the U.S. and from 7.7% to 6.9% for California. Both rates were also substantially below their year-ago levels.

### Reverse Commuting

In the August 1992 issue of *SCAG Employment Trends Monthly*, we discussed the "intercounty job market linkage" between Los Angeles County and the Inland Empire--the Riverside/San Bernardino Metropolitan Statistical Area (MSA). The EDD monthly wage and salary employment

data (based on job counts at the place of work) and the unemployment figures (from the household survey, which counts unemployed workers by their place of residence) suggest a negative correlation between the Los Angeles County job market and Inland Empire unemployment. That is, an improvement in Los Angeles County's labor market should be reflected, with some time lag, in a reduction in Inland Empire unemployment rates. We concluded that if this correlation is valid, it was unlikely that we would see a significant drop in the unemployment rates in Riverside and San Bernardino Counties until a healthy pickup in job growth in Los Angeles County had occurred.

This relationship is as valid today as when we reported it four years ago. EDD labor market statistics show that wage and salary employment in Los Angeles County is still about 270,000 jobs below its pre-recession peak. They also show that the unemployment rate in the Riverside/San Bernardino MSA remains relatively high

In Table A below, we compare employment changes by place of residence to employment changes by place of work for each SCAG county/MSA between August 1990 and August 1996. As might be expected, "reverse commuting" occurred to some extent between Los Angeles County and all of its neighboring counties over the period. Ventura County created a significant number of jobs for non-residents, but the largest net increase took place in the Riverside/San Bernardino MSA.

In an effort to shed more light on this subject, we analyzed monthly data on changes in employment by place of work and by place of residence for the Riverside/San Bernardino MSA over the period from January 1984 through August 1996. These data substantiate the reverse commuting hypothesis, showing a distinct difference between pre-1990 and subsequent years. Prior to 1990, employment by place of work was virtually never greater than resident employment; after 1990 the reverse is true: on balance, employment in the Inland Empire has

**Table A Employment Changes by Place of Residence and by Place of Work: August 1996 vs. August 1990**

		UG	UG	( )	( )	( )
						( )*
<b>Imperial</b>	Employment by place of residence (R)	33,300	41,500	8,200		
	Wage & salary jobs by place of work (W)	36,850	48,000	11,150		2,950
<b>L</b>	Employment by place of residence (R)	4,304,500	4,082,000	-222,500		
	Wage & salary jobs by place of work (W)	4,104,100	3,831,200	-272,900		-50,400
<b>Orange</b>	Employment by place of residence (R)	1,292,300	1,292,100	-200		
	Wage & salary jobs by place of work (W)	1,171,700	1,176,800	5,100		5,300
<b>/S B MS</b>	Employment by place of residence (R)	1,126,300	1,194,700	68,400		
	Wage & salary jobs by place of work (W)	722,800	805,100	82,300		13,900
<b>Ventura</b>	Employment by place of residence (R)	353,600	356,700	3,100		
	Wage & salary jobs by place of work (W)	245,500	256,400	10,900		7,800

Note: \* A positive value in this column indicates a net increase in *non-resident workers commuting into* the county between 1990 and 1996.

A negative value indicates an increase in the number of *resident workers commuting out* to other counties to work.

even though the two counties combined have created over 82,000 payroll jobs since August 1990. In fact, as suggested by Dr. John Husing, author of the *Inland Empire Quarterly Economic Report*, based on a comparison of EDD labor market statistics for July 1990 and July 1996, wage and salary employment growth in the Inland Empire has been so strong that a portion of the newly added jobs is being filled by workers from Los Angeles County! This phenomenon could be called "reverse commuting"—a daily movement of workers from Los Angeles County commuting eastward to the Inland Empire to work.

exceeded the number of jobs held by residents there during the 1991-96 period.

More detailed data and investigation will be needed to draw definitive conclusions about why the reverse commuting phenomenon occurred and whether it will continue in the future. However, possible explanations could include:

- There is evidence to suggest that a number of firms in Los Angeles County have closed down and